

## Rental Income in the USA: Mystery of the Missing Billions

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A STUDY by Steven Cord, who at the time was professor of history at Indiana University, Pennsylvania, concluded that the annual economic rent of land in 1981 was about \$650 bn, or 28% of the national income (Cord 1985 : 279). His calculations were based on data from the US Bureau of the Census and the Federal Reserve Board.

The economic rent of British land in 1985 is estimated to be equivalent to 22.4% of national income. Had this study used a uniform interest rate a couple of percentage points below home loan mortgage rates for converting all capital values into rental values, as Cord's study did, the land rent to national income ratios would be about equal. Yet in both countries, especially in the USA, official reporting of rental income gives no indication that land rent might play a significant part in the economy.

In the *United Kingdom National Accounts*, which include Northern Ireland as well as Great Britain, published by the Central Statistical Office, gross rental incomes in 1985 (i.e. before capital consumption), including imputed charges for capital consumption of non-trading capital and imputed incomes from owner-occupied homes, amounted to 9.2% of national income. 65% of this was in the personal sector, and 64% was imputed. Net rental incomes (after capital consumption) could not have been more than 4.5% of national income, but adding government revenue from the North Sea as a measure of oil rents brings the proportion back to 9%. This figure does not include imputed rents for owner-occupied properties other than homes, but it does encompass the rents of buildings and permanent improvements as well as land.

In the United States, official statistics at first glance indicate that the rent of land might be even less significant. The rental income of land and buildings is calculated by the Bureau of Economic Analysis, US Department of Commerce, and reported in *The Survey of Current Business* (SCB) and *Economic Indicators* (both Washington, DC, USPGO). But it is for the personal sector only, including imputed rents for owner-occupied dwellings.

The calculation has undergone two major changes. Beginning with the January 1976 issue of the SCB, a capital consumption adjustment was subtracted from gross rental income. The data for several previous years was recalculated, but data calculated by the previous method is not comparable. The older figures were from 10% to 20% higher than the new ones.

An even greater revision was introduced in the December 1985 issue of the SCB (p.11). Revised figures for the series are given in the February 1986 issue (p.24). This series has allegedly 'improved accounting for expenses of home ownership', which drastically reduces reported rental income. However, the annual revisions downwards are not proportionate but vary erratically, as the latest revised list shows in Table 12 : I. The estimate of personal net rental income for 1981 was 0.6% of national income.

**Table 12 : I**  
**Rental income of persons in the USA**  
**(\$ billion)**

	<i>1976 basis</i>	<i>1985 basis</i>
1981	42.3	13.3
1982	51.5	13.6
1983	58.3	13.2
1984	62.5	8.5

A break down of personal rental income was provided in Table 6 of the July 1988 issue of SCB, and we give the 1986 figures in Table 12 : II.

**Table 12 : II**  
**Breakdown of rental income of persons in the USA, 1986**  
**(\$ billion)**

Oil royalties	8.6
Farms	5.1
Nonfarm nonresidential	8.0
Nonfarm housing	35.8
Gross rental income	57.4
<i>minus</i> Capital consumption	-45.0
Net rental income	12.4

*Note:* Numbers do not add up due to rounding.

The December 1985 SCB classified the revisions as 'definitional', 'capitalize residential replacements', and 'statistical' (p.11). The latter was the major change. In 1984, for example, it consisted of a 'statistical' subtraction of \$55.9 bn. In the description of the changes on the same page, the SCB stated that 'The revision lowers the level of rental income of persons by substantial amounts throughout the 1970s and 1980s.' This was due primarily to two statistical changes — an expanded list of homeownership expenses, and the incorporation of data from the Census of Housing, lowering the estimate of 'space rent' from 1973 onwards.

'Space rent,' also called 'gross housing product,' is calculated by the US Department of Commerce and published in the SCB and in the *Statistical Abstract of the United States* (Washington, DC, USPO). It measures personal consumption of housing as the gross rental value of real estate before deducting expenses and depreciation, less expenditures for transient dwellings such as hotels. Theoretically, it should be proportional to net rental income, but it is not proportional to the 1985-revised series.

From Table 12:III we must conclude that the 1985-revised figures for rental income have little economic significance. Between 1960 and 1985, with gross national product growing, the value of the dollar decreasing, and the housing stock increasing, we would

Table 12 : III  
 Net rental income of persons in the USA,  
 1985 — revised series (\$ billion)

1960	1970	1979	1986
15.3	18.2	5.6	12.4

expect the income from real estate to grow proportionately: instead, it *shrank* according to the figures. Between 1970 and 1986 the population grew by almost 20% from 203 million, and residential capital (given in the SCB) in constant dollars increased by 56%, yet rental income divided by the GNP deflator (1982 = 100) is estimated to have fallen from \$38.6 bn to \$10.9 bn. How real rental income could have declined by 72% while residential capital increased by 56% is an intriguing question.

Real estate is a major component of national wealth and income. In 1985, residences in the US were valued at \$3,502 bn, 32% of the total stock of tangible wealth (*Statistical Abstract*, 1986-87, Table 754), yet rental income was put at \$9.2 bn (SCB July 1988, p. 45).

The lack of credibility of the rental income data, especially the current series, has important consequences. Rent is a component of the national income, so if it is being understated the national income is also being understated, unless rental income has been shifted to some other category. Could the expenses of housing have risen so much that they absorb most of the annual income of real estate?

Much of what is reported as interest and dividends in the national income is actually rental income. Mortgage payments to banks, net of overheads, are in turn paid to depositors and investors as interest and dividends. But it is not clear that the missing rental income has artificially boosted these categories as reported in the national income accounts.

A second problem, if rent is being understated, may be the effect on economics as a science. Economists today typically relegate rent to a minor role in the modern economy. Paul A. Samuelson, in his textbook *Economics*, assures students that 'historically, pure land

rent has become a declining fraction of GNP and NNP ...' (1980:684n). Certainly, if one believes the national income accounts, one gets this impression. But the studies by Cord and the authors of this book prove otherwise. Also, a study by Allen Manvel in 1968 estimated the land value component of US real estate as about 41% (Cord 1985: 281). Even gross housing product, combining tenant and owner-occupied housing, land and buildings (\$279 bn in 1981), plus corporate and government rent, might not cover Cord's net rent figure for land alone (about \$540 bn in 1981, apart from mineral rents and local property taxes).

This leaves a large gap for research. The question is: is any economic rent missing? If so, where did it go?

This also leads to a third consideration, the public choice issue. If the calculation and publication of statistics is subject to the same types of political influences as other government activities, it would be theoretically possible that the low figures for rental income are due to 'rent-seeking' in the literal meaning of that term. Low figures give rental income a low profile and would help minimize the taxation of rent and real estate. Favourable tax legislation would let the owners of real estate keep more of their rents. The fact that both the revisions of the rental income series have been in a downward direction, and that the second revision reports rental income as decreasing while the economy as a whole was expanding, is consistent with such a public choice hypothesis.

The mystery of the missing rent awaits resolution.